

Driving decarbonization: the role of infrastructure investment in mitigating climate change



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Infrastructure sectors play a critical role in mitigating climate change, given their potential to support the decarbonization of the economy through renewable energy, green mobility solutions, and circular economy.

Renewable energy sources like hydro, solar, and wind power are critical elements of the climate transition, alongside infrastructure to support green mobility, such as EV charging stations and rail infrastructure. The waste and water industry is key to support a circular economy, which itself is a driver of reduced emissions and climate change mitigation. Other more nascent technologies are coming into play as well for infrastructure investors, such as hydrogen, sustainable aviation fuels, or carbon capture and storage but their potential and scalability still need to be demonstrated, and business models need to be de-risked

The Paris Agreement underscores the imperative of aligning financial flows with global climate goals. For asset managers, this responsibility is twofold: mitigating transition risks such as stranded assets or long-term physical risks which endanger institutional investors' portfolios, and unlocking transition value by capitalizing on opportunities in sustainable investments.

On the other hand, as a mirror to transition risks are transition opportunities. Where states and supranational organizations want to organize the economy to meet climate targets there will be incentives for investors to channel capital where it is needed for the transition. Being aware of those strategies is key for investors to anticipate and look for those opportunities where they can generate financial returns while contributing to creating a low carbon economy, thus unlocking transition value.

To achieve this, we must select the right assets that align with climate goals, avoiding those that cannot transition. So-called "green" assets, or "climate solutions" are a straightforward choice for a climate strategy. Within those, you can find proven technologies and business models such as solar PV, wind, biomass ... as well as new infrastructure types which are emerging such as battery storage, biogas, EV charging, sustainable aviation fuels...

Beyond climate solutions, the more sophisticated option is to invest in assets which need to decarbonize their activities. This requires more expertise from asset managers as well as tools and methodologies to support the analysis.

Assets must be meticulously evaluated based on their business plan, climate strategy, willingness to rise to the challenge (which relies also on the management's vision), and concrete action plan backed by robust CAPEX. Only assets which have a clear potential to decarbonize at the right pace should be invested in, and asset managers should do their best to support them in their journeys.

This also means that investors need to identify assets which may not be able to transition, in particular those that would lead to locked-in emissions, and avoid them.

Thus, we can build portfolios that support a sustainable future. We must also monitor and engage with portfolio companies during the holding period to ensure alignment with climate change mitigation ambitions. This approach not only mitigates risks but also unlocks transition value, driving the decarbonization of the economy and contributing to global climate objectives by generating real life impact.

Asset managers who are embarking on this journey must make a firm commitment, supported by robust methodologies, comprehensive frameworks, and specialized expertise.